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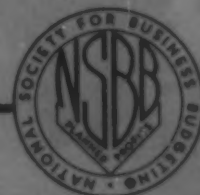
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BUDGETS...

BEWITCHED OR

BEWILDERED?

Sales Budgeting, being the foundation for all business planning, has been the prime target for all doubters of budgeting in general. The fact that sometimes sales forecasts go astray does not cancel out all of the potential good which is inherent in a sales budget. The accuracy can be improved contingent upon the effort, knowledge and skill of the forecaster, but an intelligent approach to the problem of managing a business is impossible without a projected sales volume. It behooves us, therefore, to eliminate the witchcraft of forecasting and approach the problem on a sound factual basis to insure accuracy as much as possible. Reports to inspire action are the keynote of Mr. Rayburn's remarks on the subject of sales forecasting.



Those of us who have either prepared budgets or make our living handling figures--accounting figures, that is--have more than once felt that those figures must be bewitched. Undoubtedly, many of our company executives have looked at our reports and have been bewildered.

The word "bewitch" as normally used means "to affect by witchcraft". There is another less known meaning which I would like to apply now. That is "to fascinate". Why? Because I believe that budgeting as a management tool when properly developed and applied can remove much of the bewilderment from business operations in a very fascinating way.

How do we properly develop and apply this beneficial management tool? Although a budgetary program may start in an organization within the manufacturing area, it is soon apparent that any plan of operations must be related to the volume of business anticipated. The amount of activity in any segment of a business is normally regulated by the volume of sales both quantitative and dollar wise. In order for a comprehensive budgetary program to be realistic, there must be an accurate sales or revenue forecast. Otherwise, all the estimates in the operating and financial budgets can be misleading. A solid foundation

for our budget would remove much of the veil of bewilderment from our coordination and control aspects of budgeting.

An accurate sales or revenue forecast does not just happen. The problem of accurately forecasting market potentials in terms of quantities, prices, and timing is difficult for many concerns. Although numerous concerns have been able to attain a high degree of accuracy, in many cases it should not be expected due to technical and practical difficulties. Nevertheless the problem, like most other managerial problems can be solved adequately if approached in a logical manner.

FOUNDATION OF PROGRAM

Recognizing the sales budget as the foundation of our budgetary program, we should desire to make it as true and strong as possible. Two factors will determine whether we meet our objective or not.

1. The care with which the sales forecast is made.
2. The activity and ability of the sales department to attain the sales objectives expressed in our sales budget.

The sales budget is the revenue side of the planning or forecast budget. It involves both sales quantities and sales dollars. As planning for the future is generally divided between the immediate and distant future, so should our sales budgets be of both short term and long range.

Today, a number of organizations project sales trends for the industry and the firm for five to ten or more years in advance. Such long range forecasts are highly tentative and must be revised from time to time. Nevertheless, it is essential that a company have long range objectives which places emphasis upon determining the position the firm desires to occupy in its field of industry. The sales forecast is the key component of the long range planning of top management. Lest we forget, the long range company objective should also include profit objectives, capital outlays, research, and financial position.

Placing a microscope over the long range forecast, we can bring the current portion into sharp focus. Generally, this short term sales forecast is for one year or less. In either case the purpose of sales budgeting is not to attempt to estimate or guess what actual sales will be but rather to develop a plan with clearly defined objectives toward which sales and operational effect is directed in order to attain or exceed such objectives.

The development of a sales plan which management can expect to be accomplished requires coordinated effort on the part of sales executives and other top management groups. After development and approval of the sales plan or budget, the sales department must assume the responsibility of accomplishing or exceeding the goals.

REQUIRED DATA

The development of the short term sales budget involves detail with respect to product, time, and organizational responsibility. In view of this the accounting department needs to supply information on the following;

1. Sales by product or product groups.
2. Sales by month and for quarter.
3. Sales by individual salesman.
4. Sales by territories.
5. Sales by lines of responsibility.

The sales budget should indicate the same type of break-out in addition to the annual quantities and dollar revenue. In some situations it may be impracticable to forecast physical units. In such cases, however, a conversion factor must be developed to enable the determination of production requirements in a manufacturing company and or purchase requirements in a merchandising organization.

Numerous methods have been devised to forecast sales, ranging from the "highly refined"

statistical approaches to the rather crude "rules-of-thumb". We can not prescribe any one method which would be universally adaptable. Each organization must select or rather develop its own method according to its own peculiarities. The selected method must be constantly reviewed and improved to keep up with the growth and needs of the concern. In determining your method, you must have constantly before you (a) characteristics of your organization, (b) status of budget education, (c) available personnel, and (d) costs of budget procedure.

Normal characteristics of a firm are its size, the type and variety of product, methods of manufacturing or purchasing, channels of distribution, and territories served. We all know there are many individual characteristics which apply to our company only, as well as the peculiarities of the various industrial, merchandising, transportation, utility, and other fields.

Frequently, a concern starting on a budgetary program will find it desirable to use a rather simplified approach in forecasting sales. As the executives involved in the forecasting and subsequent use of the forecast understand budgetary concepts and methods, more complicated approaches to sales forecasting can be developed. The "budget education" of your company and the development of budgetary methods normally go "hand in hand".

The sales executives have the major responsibility for the sales budget, but other departments will also be involved. The availability of qualified individuals in any one of the cooperating departments could seriously affect the accuracy and acceptance of the sales budget.

COST OF BUDGETING

Although as budget executives we are enthused about the potential of the budget tool, we must keep in mind the costs we are creating. The cost of developing and operating a sales forecast will vary with individual concerns and with different methods. Thus we should consider the possible results in relationship to probable costs of the budget activity. Remember the final test of a budget program is whether your business operates more profitable "after" than "before".

Regardless of the method developed within your organization to forecast sales, certain basic steps are common to practically all methods. These basic steps are necessary in furnishing us information on which to build our budget. They involve answers to a few simple questions.

1. Where have we been and where are we now?
2. What is our market potential?
3. What is the economic outlook, both general and for our specific industry?

4. What are the limitations of our concern?

The accounting department can furnish us information on past sales performance. Usually these will be by months, quarters, and years. Additional analyses will be required by products, territories, customers, salesmen, size of order, etc.

The determination of what can be sold and how much can be sold is generally accepted as market analysis. Market analyses are usually not undertaken for budgetary purposes alone, but a sound market analysis will lay the groundwork for effective sales budgeting. It is a responsibility of the sales executives to be familiar with and to develop market analysis or research for the concern. This activity is generally outside the scope of the budget director and controller.

In forecasting general and specific economic conditions, three approaches are prevalent. One approach used by many firms is to establish a special staff group for economic analysis. Such a group would be staffed principally by economists and statisticians. Another approach revolves around the "considered judgments" of top executives, little or no formal statistical and economic analysis being made by them or the firm. This approach is frequently accurate depending on the degree of exposure and alertness of the executives in their daily contact with other business individuals and in their readings. A third approach involves a dependence on outside professional assistance for guidance and help in appraising the general economic picture as it affects your particular concern. Various combinations of these three have frequently been more satisfactory than any single approach separately.

Each concern has its own limitations with which it must learn to live until such time as those individual limits can be extended or removed. These limitations are frequently financial, production, and personnel. All of us know of many others. As budgeteers we must consider those existing limitations applicable to our concern.

In selecting or developing a forecasting method for our concern, we should remember that the method should be no more complicated than is necessary to develop a sales estimate with an acceptable degree of accuracy for our purposes. The highly refined mathematical approaches are rather rigid and unless tempered by considered judgment are likely to be misleading. In addition, complicated methods have a tendency to convey a false sense of accuracy and create a false sense of security. In no case should the more complicated techniques be used by other than competent specialists who have a thorough knowledge of the specialized formulas and underlying assumptions, as well as good judgment and familiarity with the industry.

HOW DO OTHERS DO IT?

How do other firms approach their sales forecasting in actual practice? Controllershship Foundations, Inc. conducted a survey of the practices followed by thirty-six leading industrial firms. All stated that their Sales Forecasts were used as a basis for Financial Forecasts and Budgets. Although the firms differ on other practices there was a clear pattern indicated. For instance, the Sales Forecast is initiated by Line Sales Organization in the majority of the firms, but was reviewed and/or revised by the Financial Officer's Staff or other Headquarters Staff. Final approval generally rests with a Committee of Officers. The survey also indicated that the Sales Forecast is based on more than one method or approach, being led by Historical Trends of Own Products and Estimates of Field and/or Headquarters Sales Organizations. Another survey covering more companies reports similar results in the September 1956 issue of "The Management Review" -- Lydia Strong's article "Sales Forecasting: Problems and Prospects".

ACTION REPORTS

In addition to the sales budget serving as a springboard to other business budgets, it must be kept in mind that the sales budget is also a plan of action for the sales department. Without a method of follow-up and measurement of performance to assure obtainment of the established goal or to "red flag" the need for the restatement of the goal, you have "missed the boat".

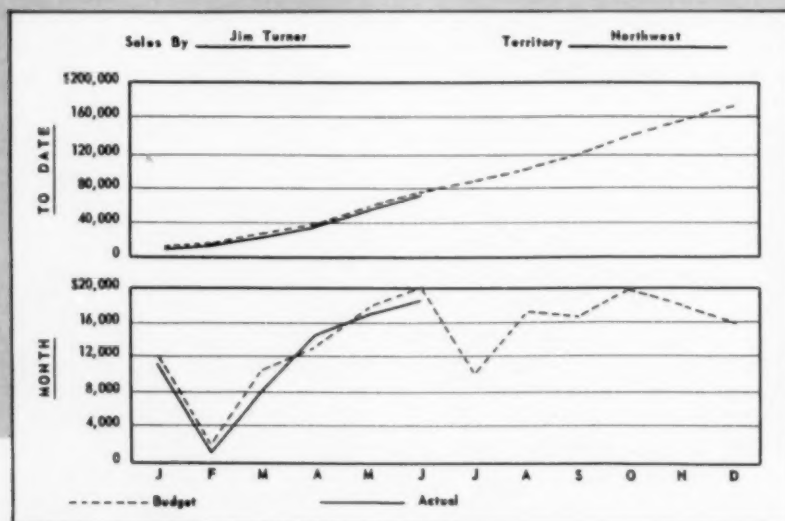
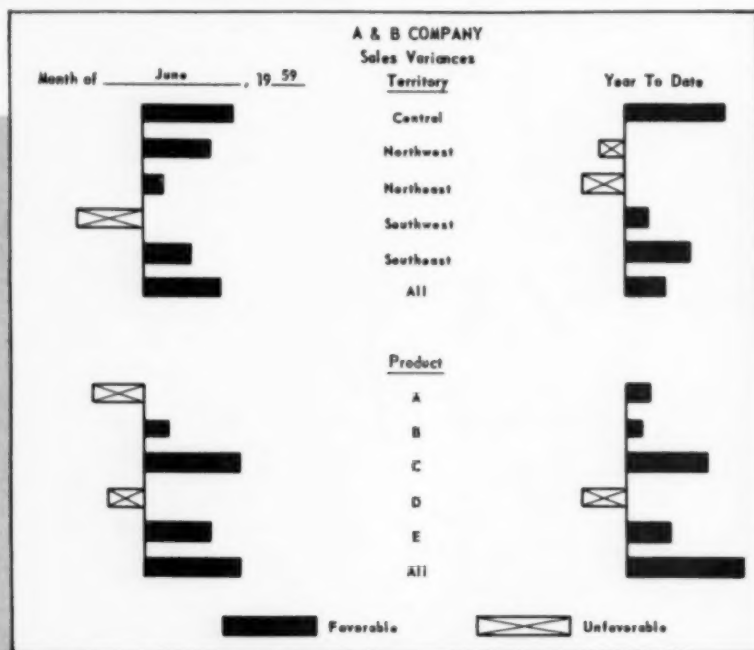
Successful control of sales operations requires a continuous review of results and of individual performance. To a limited extent such control can be exercised by the personal supervision of sales executives, but the chief bases for effecting such control is a system of sales reports that provides the significant facts relative to sales performance and an adequate interpretation of these facts in terms of personal responsibility.

Sales executives are prone to disregard figures, particularly reports with a vast amount of statistical data. Accordingly, you should modify the report to suit the situation. In some instances, the best method of getting results with be to write a short memo or narrative report, pointing out deficiencies and asking questions about them or suggesting action. Perhaps a personal visit will be feasible. In other instances a chart or graph will effectively get the point across.

Generally, we are interested in three levels for our sales budget reports -- company, sales territory, and salesman. Graphs can be presented to indicate your company's relative position within the industry, and budgeted sales vs. actual sales or variation of actual sales from budgeted sales. Variations in product mix is an important element

which should also be reflected. A simple comparison of budgeted and actual sales by territories, or other sub-division, for both month and

year to date, showing gain or loss over budget, may be helpful in pin pointing areas of difficulty.



For effective action, one should go to the results by each individual salesman. A simple chart showing actual and budgeted performance can be used for this purpose. Such a chart indicates the months of the year along the bottom and dollar sales along the left side. Cumulative budgeted sales are plotted for the year. As actual sales are determined, they are currently plotted on the same chart. A glance will tell if budgeted sales are being met or what. For those who hate to waste space, the upper left hand corner can be used to indicate in table form actual sales by month for prior two years and current year to date. What would the effect be on an individual salesman whose actual sales line fell below budgeted

sales? Remember your reports should generate action.

In concluding our discussion of sales budgeting, it should be emphasized that the planning and control of sales operations can never be reduced entirely to a matter of principles, rules, and procedure. The alertness, foresight, inspiration, and dynamic leadership of sales executives must always be the dominant factors. Intelligent planning and sensitive control of operations are, however, indispensable aids to successful sales management and a business that is not--bewitched and bewildered!

By: Dr. Henry Ludmer
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Company Planning and

COMMERCIAL ENGINEERING

Have you ever felt the need for a ready reference, or check-list, if you prefer, of all the reports a progressively managed company ought to prepare? Dr. Ludmer advances in this article the cause of the Commercial Engineer and presents a recap of the tools of his trade. It is an imposing list — numbering 50 in all — and covers the full range of company operations. If you wish to make a substantial contribution to your company's welfare and growth, and you need a list of the tools required, you can be Sure, if it's Dr. Ludmer's.

Commercial Engineering is to many executives a new idea rapidly taking hold in this rough world of ours as the severity of business competition increases, i.e. the idea of employing engineering analysis and other scientific tools for more effective commerce, distribution and management in general. This tools area is growing fast — in invention, in interest, and in use. Nevertheless, a shocking number of substantial business concerns still make little or no use of the best devices of, commercial engineering.

What are these commercial engineering tools and what will they do for a progressive business?

Basically they are devices which aid the top and high-middle echelons of management to do a better job of contributing to profits. They do this by helping them to maximize sales, to keep costs of goods sold to sound figures, to hold down other expenses and to reduce guess work. Some of these tools are used daily, others weekly or monthly; a few are used only once a year. Some of these devices are in graphic form, many are not. They include forecasts, projections, programs, budgets, operating ratios, performance comparisons, commercial operations research, progress indicators, danger flags, survey reports, special investigations and analyses of many types. Actually, the tools

of commercial engineering take a tremendous number of forms. This discussion will cover about fifty principal tools which are so universally usable that they constitute a rough check-list of good modern practice.

The tools of the commercial engineer assist the business manager to

- a. know and understand the company's past performance, and to evaluate its current position,
- b. plan the short-range and the long-range future of the company, including the objectives themselves and the methods to be used to achieve them,
- c. place the plans into effect, remembering that no one method, but a combination of several tested ones, is enough for success,
- d. compare actual results with the plans revising them from time to time,
- e. follow up the organization for better operating results,
- f. understand the development in the general economic environment.

Most of the tools have to do with short-range operations, because most of the control is exercised at short range. While the idea of working toward long-range goals is a fairly new concept,

it is a fact that every commercial enterprise should have and work toward a definite goal for various future years. Therefore, the first tools are a group of six having to do with long-range planning:

- 1 The long - range forecast of demand should have figures for each year separately if possible, going ahead for at least five and preferably ten years or more. It should be brought up to date annually, and should be broken down by division, department or line, and expressed in terms of a constant price level, and also in terms of units of production. This long-range study should state the sales possibilities which are open to the business, assuming proper development in the various lines in which the company is presently engaged, assuming use of the present distribution channels.

The usual experience is that the forecast based on present lines, products and channels, will add up to a figure that looks too low to management. This forecast is used to develop

- 2 the definitely stated long-range sales goal. This should also be broken down by division, department, or line. But it should include not only the lines and products at present manufactured, but also new ones. It should include new channels of distribution. It should cover the same years as the long-range forecast, and, like it, should be brought up to date each year. What new lines, products and channels should be entered is, of course, a matter of profound management study, aided by the commercial engineer working internally or brought in on a consulting basis. In any case, the goal itself should always be expressed in writing, and in very definite and specific terms. Preparation of it should be entrusted to the commercial engineer as special assistant to the president. The other tool used for that purpose is
3. the comparison of factory capacity and distributive capacity with the long-range sales forecast. Since most manufacturing concerns do not have enough productive capacity to take care of the normal growth of their present business, a comparison should be made annually by manufacturing companies between each new long-range sales forecast and the already planned factory capacity. It should be handled by the commercial or industrial engineer in charge of planning factory changes and growth.

This comparison, along with the long-range sales goal, should now be used by the directors and the president to develop.

4. the long-range expansion plan. This is the written outline of the steps which will have to be taken, if the sales goals for future years are to be met. With a manufacturer, such a plan may require that a factory be constructed to expand capacity to make an old product, that a company

be acquired, that arrangements to expand or alter the distributive set-up may be needed, that extensive product development studies must be made - all at certain specified times. With a mercantile concern, the need for new stores, new departments or new warehouses may be indicated. This long-range plan should be submitted by the president to the board of directors for approval. The results obtained with conscious and systematic planning using above tools are better than results obtained without them. The successful realization of the long-range expansion plan requires the preparation of the

5. long-range financial program. This program makes provision for the funds for the purchase of the fixed assets called for in the long-range expansion plan, and for the working capital to sustain the anticipated larger volume of business.

Once made, the latest revised long-range expansion plan, the latest long-range sales goal which contributed to it, and the latest revised long-range financial program based on it, must all be compared annually with the actual accomplishments toward them.

6. The annual comparison of accomplishments with the long-range sales goal, the long-range expansion plan, and the long-range financial program should be made by the same commercial engineer who reduced the sales goal to writing.

Shifting now to the short-range tools, we come to an area in which meritorious services are fairly frequently used, but in which a high percentage of good-sized concerns are still far behind. Here the most important thing for the commercial engineer is to make use of the budgetary process. Budgets are the first great tools of scientific management. There are budgets of many kinds, and many systems of budgetary control. No budgetary system is adapted to the needs of all businesses. But all such systems lead up to preparation of an estimated statement of profit and loss for the budget period, and to an established balance sheet showing the financial condition of the business at the end of that period. These two items constitute the

7. General Budget. The purposes of the general budget are: to facilitate adjustment of all the operations to the general plans of the business; to permit regular comparisons between actual operating results and the plans; to allow corrective action to be taken, including steps to stimulate sales, lower production costs, reduce inventories, change prices, or reduce expenses; and to insure operation at a satisfactory profit and with proper regard for a generally sound financial condition. The general budget should be developed for a full year before that year starts, and be broken down by quarters or months. It should be revised quarterly or monthly, and there should be provision for its regular periodic

review and for a comparison with actual operating results. While the various staff departments and the line organizations all have their roles in preparing and contributing to the various parts of the general budget, its compilation and over-all supervision should be under the general direction of the controller. Usually in a large company he will need a budget department and call on the commercial engineer to work on this job. When all parts of the business have prepared their contributions to the general budget, it is the job of the budget director or group in charge of budgeting: a. to put the whole picture together b. to call for needed changes in advance of the period covered when the initial plans are obviously unsound, c. to revise the budget later, as may be needed, and d. to compare results with the budgetary plans from time to time.

8. The estimated statement of profit and loss is built up in part from a number of budgets. It should always take the same form as the regular periodic reports of profit and loss, in order to make comparisons easy.

9. The short-range forecast of demand, usually covering a year, is made by the commercial engineer on the basis of the data supplied to him by the marketing research department. He provides information and guidance to subsidiaries or sales divisions which then estimate their own sales demand. The forecast of demand is often useful in pointing to needs for more production capacity. For a manufacturer, the part of the business which plans the production, should carefully study the forecast, and calculate how far it can go toward meeting it. As a result, it prepares with the help of the commercial engineer

10. the production budget. It represents what the factory organization is tentatively committed to make. Since demand is frequently seasonal and since the sales peak will often exceed the maximum capacity, inventory must be accumulated in advance, the production lines balanced for a stable labor force and master schedules, route sheets, etc. made out accordingly. The production budget must take all these needs into account.

In fact, in order to take it into account in a seasonal manufacturing business, it is usually necessary to have the Commercial Engineer develop the

11. Inventory formula. This shows the number of days' stock needed by the factory warehouses, and the branch warehouses, for each line at each season of the year. When it is known what will be produced, the probable level of starting inventories, demand throughout the budget period, and the desirable ending stocks, a very good idea can be gained of the sales that can logically be expected. Calculations of sales expectancy made by the commercial engineer lead to the

12. Sales budget. This budget when accepted by the sales department, represents what that department has agreed to sell. It is normally used by the sales department itself in setting quotas. It is converted to a net sales basis by the commercial engineer and used in the statement of estimated profit and loss. The cost of goods sold is another important element in the profit and loss calculation. All of the cost items should for satisfactory results be obtained from separate budgets.

13. The purchase budget. This budget outlines the needed materials, their cost at anticipated prices, and a timed schedule for their purchase; it takes into account the inventory requirements. It includes materials used directly and indirectly in production and for other purposes.

Some concerns have a materials and inventory budget, which devotes special attention to inventory planning and control. Commercial concerns use purchase budgets prepared by the Buying Department with the help of a commercial engineer.

14. The labor budget. It is a statement of labor cost for the number of persons required by the factory organization to turn out the goods specified by the production budget. It is used as a blueprint of needed labor by those in charge of production employment E.g. for hiring schedules, and it is used to calculate the cost of goods produced, when combined with the purchase budget and the

15. Manufacturing Expense Budget which includes such items as maintenance, repairs, utilities, insurance, factory supplies, depreciation of factory buildings, machinery and tools, taxes.

16. The Selling Expense Budget, with separate budgets for the various geographical divisions of the line selling organization and for each staff sales department, is also called the distribution cost budget. It is desirable to divide all expenses into fixed and variable expenses.

17. The Advertising Budget is sometimes combined with the selling expense budget. It should show the principal advertising and promotion expenses. Increases might be justified to overcome sales resistance. It is equally important that none of the various expense budgets be intentionally padded - sometimes done to reduce the risk of overrunning the budget.

18. The General and Administrative Expense Budget normally covers management salaries, depreciation, office rent, corporate expenses, office salaries, office supplies, communication, transportation, bad debts, contributions to profit-sharing, pension, etc. funds. Control of G & A expenses is often the deciding factor in producing a profit.

19. Break-even Calculation. The break-even point is either (a) the percentage of utilization of productive capacity or (b) the level of dollar sales, at which the business will produce a profit at present prices, and with present fixed expenses and present variable expense ratios. It is important that the break-even point be not too near to full-capacity production or sales levels – not above 75% of full capacity. A higher point leaves the company in a precarious position in the event of a sudden drop in sales volume or in price levels. Downward changes in prices received or upward changes in either fixed or variable costs will have the effect of raising the break-even point. A particularly great danger is that the fixed costs will gradually creep upward in relation to sales while the variable costs remain constant.

If the variable costs move directly with sales, the method is to divide the present variable expenses by the present sales volume. The resulting percentage is subtracted from 100%. The total of fixed costs is then divided by the percentage which remains. The result is the sales volume needed to break even. The procedure used to calculate the sales volume necessary to produce any given satisfactory dollar profit is the same except that the desired dollar profit is added to the fixed costs before the final division. A useful variation of this device is a chart showing a number of levels of fixed cost, thus permitting instant calculation of break-even levels of sales under varying fixed cost assumptions.

20. The estimated balance sheet is an essential tool because the plans for the business must result not only in a good profit level, but also in a sound general financial status. It is especially important that the financial resources of the business not be over-strained by too rapid expansion.

Analysis based chiefly on the estimated balance sheet may well show that – while the estimated profit & loss statement seemed realistic when viewed by itself – actually the financing needs imposed by the company's program are too large to be handled safely. Such a situation might make it necessary to change the expansion plans, especially by cutting down on the plant and equipment program.

21. Financial ratios. When a new estimated balance sheet and estimated statement of profit & loss are made, it is a good idea for the controller or commercial engineer to develop from these reports the 14 ratios of Dun & Bradstreet, compare them with actual ratios from earlier years and to indicate the averages developed by Dun & Bradstreet.

22. The cash budget. The financial program and the cash budget are indispensable to financial success. They should cover a year broken down by months. It shows, for each month, what the

cash balance will be, and whether additional funds will be needed from outside the business, or funds will be available beyond the cash needs of the business. The financial program states the loans required or funds available beyond current requirements and shows the plan to arrange for the needed loans, or dispose of the surplus cash.

These devices should all be closely studied by the President, the chief financial officer and the directors at the beginning of the budget period to make sure that they represent a workable plan which will earn a satisfactory profit and not over-extend the business.

23. The plant & equipment budget is important as a basis for planning of needed additions to capital. It usually begins with a statement of the value of the plant and equipment at the beginning of the budget period, allowing for depreciations, repairs and obsolescence; it provides for the estimated cost of new assets to be acquired, with allowance for depreciation and repairs on this new plant and equipment; and it shows the value of the total amount of plant and equipment, new and old, at the end of the period. An economic analysis showing net savings to be achieved by the new plant or equipment, should accompany above budget, when it is presented to the president.

24. Comparisons of the budget with operating results should be made every month, every quarter, etc. and all shortcomings should be called to the attention of the proper parties. In some cases it is necessary to press for remedial action.

The next 20 basic tools have to do with the control of production, the control of sales, and the control and distribution of stock and materials.

25. General summary of production, shipments and inventory. It is prepared monthly by the commercial or industrial engineer for the production department, and shows in summary form the physical quantities of good produced and shipped in the last month and year to date by major product categories, and the quantities taken from and added to factory inventories. The report is always expressed in product units and sometimes also in finished goods weight, and may be subdivided by plants.

26. General report of production. This is expressed in company-wide totals and plant subtotals, and is broken down by major product categories. It shows the cost of direct and indirect materials and labor, supervision, and miscellaneous expense. It covers the month and year to date for the current and previous years.

27. The statement of production and labor cost per pound and unit is a very helpful device if it shows the percentages of indexes of plant and equipment utilization and related data. It should include the percentages of previous budgets and

the indexes derived from the production budget. A report of this kind should also show the degree of utilization of plant & equipment in comparison with the degree required for breaking even and earning a satisfactory profit.

28. The factory inventory report includes raw materials, goods in process, finished goods, and miscellaneous supplies. The finished goods portion is normally subdivided by plant, by product category and by major item, and shows the inventory levels in units or pounds and in dollars in comparison with those of former periods and with the requirements of the production budget. It is in effect a rather detailed combined factory-inventory-budget-and-performance report. It shows the physical quantities in inventory in absolute terms and in terms of number of months' requirements.

29. The general report on labor should include for this and earlier periods (a) the number of employees, in total, by plant, and otherwise subdivided, (b) the quit-rate, as a factor in (c) labor turnover; (d) the accident frequency rate; (e) statistics on absenteeism; (f) data on work stoppages and grievances; and (g) data on employee welfare programs.

30. The factory shipment report is not a summary of shipments, but a periodic report on the up-to-dateness and speed of the shipping process, including (a) average speed of filling orders; (b) percentage and number of back-orders, and (c) best routes and rates.

Sales direction and control require the following basic tools:

31. The sales quotas are essential, for without them it is almost impossible to make use of sales incentive systems or to exercise effective direction of individual salesmen or of sales districts and regions. The quotas are prepared by the commercial engineer for the sales department and are closely related to the sales budget. Their development on a territory-by-territory and district-by-district basis is, however, virtually impossible without the use of the

32. The market index, which is a table showing the percentage of the company's total volume which should be contributed by each territory, district, or other area. Market indexes are of two types, general and special, or ready-made and custom-made. The general or ready-made indexes are derived from published figures on the geographical distribution of buying power, and they may be used by companies in many different fields. The specific or custom-made indexes are tailored to the requirements of the particular industry or company. The making of specific indexes calls for great technical skill and should be attempted by the commercial engineer only after a thorough market research.

33. The general report of sales shows sales in dollars and physical terms for the month of quarter and year to date in comparison with the previous year and the percentage increase or decrease over the earlier year. The sales are broken down by major product groupings or lines, and by sales districts and other geographical concepts, and should be compared with the forecast of sales demand and the sales budget.

34. Comparison of sales with quotas and market indexes. A market index may show that a given territory should be able to contribute 2% of national sales. The practical quota in the light of the past may be 1.5%. Actual accomplishment may be 1.75%. It is useful to compare these percentages in evaluating sales performance and computing quotas for the future.

35. The analysis of selling costs may be a simple report on selling expenses or formal studies of distribution cost involving detailed functional comparisons with standard unit costs.

36. The summary of selling expenses shows (1) the home office costs and the field costs in total in comparison with similar expenses for previous periods, and in comparison with the selling expense budget. (It shows the expenses both in dollars and as percentage of sales). (2) the expenses by sales districts or regions. This tool permits ranking of districts as to percentage of expense to sales, and as to improvement in the expense ratios, and allows analysis by type of expense by district.

37. Reports of collection quotas and collection results also compare districts, branches or regions.

38. The apparatus for sales management includes: (a) the report of calls and sales made, broken down by new and old accounts; (b) the schedule of special tasks performed or accomplished by individual salesmen; (c) the quota of new outlets to be secured and the reports of new outlets actually secured; (d) the gross profit quota and the actual gross profit of the salesman's territory (sales less salesman's salary and expense, but not less cost of goods sold); (e) the list of competitive accounts and prospective new accounts; (f) list of towns and territories needing special attention; and (g) the report of sales in detail for each town, broken down by major product lines.

39. The general indicators of sales activity and success include (a) the average sale by district and salesman as well as in total; (b) the average sales per man for one unit of time; (c) the rate of customer turnover; (d) the ratio of sales to new customers to total sales; (e) the percentage of back-orders to current sales; (f) the percentage

of weak towns to total; (g) the number of sales employees in home office and field — with percentage of change; (h) the turnover of sales employees; (i) the average salaries of sales employees, by position, broken down by sales branches. In mercantile concerns there are the average sales check and sales per square foot of floor area.

40. The tools for controlling advertising include in addition to the advertising budget (a) the report of advertising expenditures, with comparisons with the past and the budget (including percentages to sales); (b) the advertising cost per unit of sale; (c) the report of advertising expense allocated to individual product lines, by sales branches with percentages to sales; (d) the report on magazine and newspaper readership, impact of magazine advertising radio and TV audiences; (e) special surveys on pre-and post-testing themes, copy, programs, and sales effectiveness of advertising of various kinds (billboards, etc.).
41. The inventory budget is a statement of inventory goals compared with actual inventory levels achieved and may apply to factory stocks, stocks in warehouses, or goods in the hands of stores or individual departments of a store. The inventory budget is tied in with the production budget in case of a factory, and with the sales and purchase budgets in case of a commercial concern. Any inventory budget shows from month to month or quarter to quarter the desired level of inventory in physical or dollar terms, or both, these figures being arrived at through the use of figures on production or purchase on the one hand and shipment, transfer, or sale on the other. The objective of inventory control is to have the right quantity of each item at the place and at the time when needed. The great evils to be avoided are loss through inventory devaluation, excessive cost of carrying inventories, and lost sales resulting from inadequate stocks, over-ordering as well as delays in shipping.
42. The dollar open-to-buy controls should be consistent with the purchase budget, and the unit stock control should be consistent with the dollar control. There are manual, mechanical and electronic systems of unit control of stock and ordering. The dollar controls are relatively simple in application — most of them contain provision for emergency raising of the ordering limitations when necessary.
43. The reports of stock condition include (a) stock turn reports, comparing desired and actual rates of turn; (b) reports showing the number and % of items which are overstocked, out-of-stock, and under-stocked; (c) items in a back order condition in warehouses; and (d) average time of filling an order by warehouses. These reports are useful for incentive supervision of warehouses and stores.

The most important executive tools for top management are

44. The monthly progress report. This is a summary report covering sales, profits, and inventory condition of all the various operating units, in comparison with the same month a year ago and with the budgeted figures.
45. The danger flag reports are limited to situations which present problems of importance at the time of the report. In one month it may signal a dangerously rising inventory level or a falling rate of gross profit on sales. At another time such a report may show that the factory accident rate is rising or the percentage of expense to sales is getting out of line, etc. The company's percentage of its industry's sales may be showing an unfavorable trend, its backorder condition may be dangerous or certain items may be selling far ahead of the sales budget, production plan, or the capacity of the factories to produce them. The assistant to the president should handle these reports and initiate
46. Special analyses of trouble spots. They are the special work of the commercial engineer. They may take the form of special audits of departments, including a charting of their progress and a weighing of their benefits against their cost. They may involve comparative study of the company's methods and those of competitors and concerns in related lines.
47. The indices of business activity relate to (a) the economy in general and (b) the industry in question. Of former type are indices of production, bank debits, retail sales, inventories of manufacturers, wholesalers or retailers, prices, national product and income, earnings, employment, etc. Of the later type are sales and stocks in the industry in question, properly related to the company's own sales and stocks.
48. The appraisal of economic conditions should be made monthly. It normally consists of a summary of general economic conditions and an appraisal of their effect on the business in question, and should be supplied to those who are required to make forecasts and estimates of sales.
49. The division of the sales dollar into its component parts serves to focus the management eye on significant changes in the make-up of the business. The sales dollar may be divided into (a) production and distribution costs, with each including its appropriate element of profit, or (b) such categories as materials, labor, services, interest, taxes, and profit.
50. The management audit is the most necessary tool of top management, preferably made by an outside consultant, and consists of a report by him on the conduct of the business by its chief executive officers — on their policies, methods, etc. It can do much to detect in an early stage unsound situations and areas of weakness.

By: Frank McArthur
Staff Assistant to the President
Carter Carburetor, Inc.
St. Louis, Missouri

WATCH YOUR TARGET!



If there is ever a theme which repeats and repeats itself throughout all of the Budgeting articles ever written, it must be the one which deals with setting realistic goals -- At Carter Carburetor, it's **TARGETS!** Here is a unique approach to the problem of gaining acceptance and cooperation at the factory level. You are speaking their language when you talk of "Targets". The lower levels of management need to feel that you are working with them, not against them. The simpler the objective and the reporting of the score, the better chance you have to develop pride in performance against the "Target". Without it -- you haven't sold your program. Read how Carter Carburetor handles this situation.

"Watch your targets! Targets!"

For many years that warning cry has alerted fledgling soldiers on the firing range. However, a new connotation has been placed on that phrase at Carter Carburetor, a division of ACF Industries, "Watch your target!" has become the battle cry when cost gets out of line at Carter, the world's largest independent manufacturer of fuel system components.

Born of necessity when the auto industry recession caused serious and significant schedule cutbacks in late 1957 and early 1958, the system of target reporting rapidly became the prime tool in Carter's approach to manufacturing cost control.

Overhead budgets coupled with responsibility accounting had given us the technical data to work with and yet our program of budgetary control was not completely effective -- not completely sold. Something more was required to bring cost control into sharp focus. Division management set two pre-requisites in our search for a simple and yet more dynamic approach to the problem.

1. an accurate forecast of manufacturing expense;
2. an approach that could be sold to operating personnel.

Birth of an Idea

A brain storming session attended by Manufacturing, Industrial Relations, and Comptroller personnel provided the nucleus of an idea. "Give the foreman something to shoot at!" There were many ideas, including one calling for the presentation of large black 8-balls to high cost areas; however, the cold-eyed analysis which is the inevitable aftermath of such a session provided us with the basis for a simple to understand, simple to operate, reporting and forecasting system, we call, "Target Reporting".

Development of a Base Point

Our base point had to be a factor that would be common across the multiplicity of manufacturing departments involved. Using the approved manufacturing budget as a base, we related each budgeted dollar account to the budgeted standard direct labor hours. This calculation gave us the budgeted dollar cost for each standard direct labor hour. It was hoped that "cost per standard hour" would become our common denominator.

To verify our calculations, we took the performance of several good profit months and by relating the actual cost experience to the standard direct labor hours incurred, we arrived at a cost per standard hour for each expense account.

The close correlation between these two sets of costs per hour statistics convinced management that we were on the right track. This was an approach that we felt could be sold to operating personnel. They were familiar with and understood standard hours and their derivation. Standard Hour reports were already in existence and used in our manpower control technique. We had cost data on a responsibility basis. So, our base was established -- a cost per standard hour.

Cost Classification

Operating management argued, and we agreed, that foremen were not responsible for all costs charged against their departments under our subledger system of responsibility accounting and budget performance reports. A detailed analysis was made of all departmental charges and lists were made up of items felt to be foreman-controllable and those non-controllable at this level. The lists were reviewed by the Division Comptroller, the Division's Vice President of Manufacturing, and finally the Division President himself. We wanted a Carter united front in this program.

The final approved lists were as follows:

Controllable Expense	Non-Controllable
Hourly Indirect	Salary
Service Labor-Maintenance	Shift Premium
-Tool Room	Rearrangement
Perishable Tools	Scrap-Other than Departmental
Jigs, Gauges, and Fixtures	Fringe Benefits
Cutting Tools	Fixed Charges
Other Supplies	Utilities
Maintenance Supplies	Sundry
Scrap	Assessments
Overtime	

The author realizes that there will be many disagreements and even the possibility of heated arguments over this breakdown. The realization comes from actual experience, as we had many long and labored discussions in arriving at them. The important thing, however, is the fact that we did arrive at a meeting of the minds and gained acceptance of all affected personnel in the final determination of foreman-controllable and non-controllable expense items.

Development of Forecast Data

Sales forecasts were converted to units and the application of standards versus the resultant production build forecast provided the standard hour content for the forecast period for each productive center. With this information developed, it became a simple matter of applying our cost per hour data to arrive at Costs for each account for each manufacturing department. Labor hour totals multiplied by labor rates gave us total standard labor dollars. With the application of productive center burden rates, we were in a position to know not only our total manufacturing

overhead amount but also to what extent it would be absorbed by our incurred standard labor and at what rate. Not after the period closed, BUT before it even started.

This information, coupled with the dollar sales forecasts and relatively stable administrative expense forecasts, provided the basic ingredients for a realistic, accurate forecast of the division's operations in sufficient time to allow management to consider possible alternative courses of action.

Developing Realistic Targets

Current operations were analyzed in the same manner developing a cost per hour for each expense account for each productive center and the total plant. The comparison of these figures with the previously developed base data pointed up the magnitude of our task in bringing manufacturing costs in line with current volume. This analysis was reviewed with manufacturing management and a series of target objectives were developed which would, if met, bring our costs in line. From this point, specific cost per hour "targets" were established for each responsible cost area. The "targets" were then reviewed with each manufacturing supervisor having such cost responsibility. They were asked two questions: "Does this 'target' look realistic to you?"; and second, "Do you think you can meet this 'target'". The response was, to say the least, overwhelming. In almost every instance, manufacturing supervision was enthusiastic in having "something to shoot at," and in many instances vowed they would beat their targets. This was a far cry from the response received from our efforts with standard budget performance reporting and variance analysis. Perhaps our many months of budget ground work, and education efforts, were paying off, but one thing was certain, whatever the reason, "We got through to them!"

One of the key points in our campaign to sell "Targets" was the differentiation between foremen's controllable expenses and non-controllable (we have since determined that the term "Other Expenses" would be more descriptive). Comments were frequent in the vein that "you accounting people are finally giving us a break." In any event, the pendulum swung heavily in our direction and cost per hour "targets" became common language in the manufacturing jargon of our plants.

Target Payoff

It becomes increasingly obvious that if we were to be in a position to give a guarantee that our forecast was accurate, there had to be insurance that the target approach would work. We had generated an enthusiasm not only among ourselves, but among manufacturing personnel as well. By reducing all operating cost data to a common denominator, there was a basis for comparison among what are complex and varied

manufacturing departments. A feeling of competition was aroused among plant supervisors and soon the large black 8-ball, as wild as the idea appeared initially, became a symbol -- a symbol no superintendent or foreman wanted on his desk. We had finally succeeded in directing some of their energies in the direction of cost control.

There is an old proverb that says: "The proof of the pudding is in the eating." And, in our case, the success of our combined efforts would be in the results attained. What were these results? From a high point of \$7.25 controllable cost per standard hour in early 1958, dramatic reductions were reported: \$5.85 in May; \$5.15 in June; and a low point of \$4.63 in February, 1959, one year after the program was initiated. The entire 1959 fiscal year averaged out at \$5.19 cost per standard hour, a \$2.06 per hour improvement. Naturally, there were fluctuations each month as we moved through our production cycle, but the trend toward a more and more effective cost control program was significant. The target approach was working, targets were being met, and, in many cases, beaten.

Conclusion

Oversimplified? Perhaps; but effective, yes! We make no claim to a panacea for all manu-

facturing cost control problems. Ours was a special case requiring immediate action, however, the basic ingredients of our target reporting system are the same basic ingredients required for any budgetary control program:

1. Support of management;
2. Readily available data;
3. A common base;
4. Determined cost responsibility; and
5. A workable system.

An additional fact many times overlooked was pointed up in our planning. We must sell cost control at the foreman level. If you find as we did that some of the Madison Avenue technique is necessary, well, why not!

The profit squeeze continues to get tighter and tighter and the application of effective cost controls has become a prime issue in business today. This problem is a common one and the methods of coping with it are many, however, if you are looking for a simplified approach that can be readily sold to your operating personnel why not take a leaf from the Carter Book. Take good aim at your objectives and-----"Watch Your Target".

ABOUT OUR AUTHORS

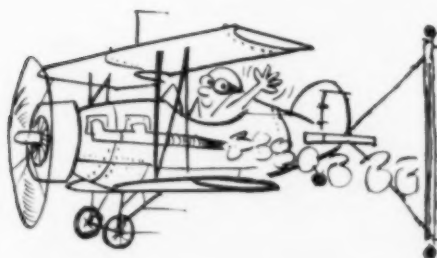
GEORGE RAYBURN - BUDGETS - BEWITCHED OR BEWILDERED - is Assistant Controller of the St. Louis - San Francisco Railroad, commonly known as the "Frisco". He teaches Budgeting at Washington University, St. Louis. He formerly taught Accounting at Omaha University and was head of the Accounting Department at Milliken University. Mr. Rayburn also has held positions in various industries in the area of finance.

ALWYN M. HARTOGENSIS - BUDGETING AND CONTROLLING INDIRECT LABOR - is Chief Methods Consultant of Ebasco Services Incorporated, New York. He has been connected with this organization since 1930. He was educated at the College of the City of New

York and later served as a lecturer 1952-57 in the Middle Management Executive Development Course of the Management Institute of New York University.

He was Past President (1953-54) of the Paterson, New Jersey Chapter of the National Association of Accountants, National Director of the Association and Member of Committee on Accounting Development (1957-59), and a member of the 1959 National Nominating Committee of N.A.A. He is the author of numerous articles on management subjects.

Consulting experience covers many diverse fields, with recent work having been performed in development of pricing policies, organization and budgetary control.



**10th ANNUAL NSBB CONFERENCE
CINCINNATI, OHIO - MAY 19, 20, 1960**

1959-60 NSBB



BOSTON — Albert A. Schaake — BS degree in BAA at Northeastern University, Class 1934 ... 14 years with Bolta Products Division of The General Tire and Rubber Company. In charge of General Accounting and Budgeting ... Member of the Steering Committee which helped form the Boston Chapter of N.S.B.B. Al is also Vice President, Merrimack Valley Chapter of N.A.A.



DALLAS — Calvin G. Bauer — BA Degree Dartmouth College in 1950 ... MBS Degree Amos Tuck School in 1951 ... With Arthur Andersen & Co. in Chicago from 1951 ... Transferred to Dallas in 1954, currently serving as Manager in charge of Administrative Services ... NSBB member since November, 1955, served as Program Chairman and Vice-President of Dallas Chapter ... Member of N.A.A., A.I. C.P.A., and Texas Society of C.P.A.'s.



NORTHERN NEW JERSEY — Morgan H. Cooper — Graduate Massachusetts Institute of Technology ... With John-Mansville Corp. until 1952 ... Joined Ford Motor Co. at Dearborn, Michigan and in 1954 returned East to Curtiss-Wright Corporation, where he is now employed as Assistant to the Executive Vice-President ... Founding member of the Northern New Jersey Chapter of NSBB, served as Program Chairman, Second Vice President and First Vice-President.



PEORIA — Clayton L. Boyd — Born in Keokuk, Iowa ... moved to Peoria after High School ... With Caterpillar Tractor Company thirty years. Worked in factory, then transferred to the Accounting Department ... Accounting training at International Accountants Society of Chicago ... Appointed Manager of the Budget Division, Accounting General Office in January, 1958 ... Mr. Boyd's company sent him to Newcastle, England for four months in 1959 ... Clayt and Vivian Boyd are married 24 years and are grandparents, having two married daughters ... Helped form the Peoria Chapter of NSBB in June of 1958.



PHILADELPHIA — George W. Jackson — Has BS and MBA degrees in Economics ... Written many fine articles on Budgeting ... Was Assistant Comptroller, Pyrene and CO-TWO Fire Equipment Companies ... Served with Port of New York Authority, Sharp and Dohme and the Continental Can Company ... Is now Corporate Budget Director of Electric Storage Battery Company ... With Philadelphia Chapter NSBB, he has been Program Chairman, Treasurer, and Vice President.



PITTSBURGH — Ralph B. Horne — Studied Accounting at Duffs-Iron City Business College and the University of Pittsburgh ... Supervisor of Budget Department with Allis-Chalmers Manufacturing Company ... Chairman of Steering Committee for organization of Pittsburgh Chapter NSBB.



ROCKY MOUNTAIN — Jack L. Watson — Graduated from Indiana University in 1937 ... With United Air Lines since 1937; worked in Cost Control and Forecasting in Chicago ... Moved to Denver in 1948, where he is responsible for Cost Control, Industrial Engineering, Regulations and Forms Control and Airplane Schedule Coordination ... Charter member of Rocky Mountain Chapter of NSBB having served as Vice President and Program Chairman previously ... Author of Business Budgeting article "Profit Planning"

CHAPTER PRESIDENTS

SKOKIE VALLEY — Lyle E. Dallefeld — B.S. Degree in Accounting University of Illinois 1942 ... College of Law, Northwestern University ... Married, has a child, age 11, resides in Park Ridge, Illinois ... With Esquire, Inc. for 6 years, has been with Allstate Insurance Co. for the past 7 years — now serving as Budget Director ... Lyle is active in Boy Scout work in his spare time.



ST. LOUIS — Carl M. Bacon — Born in Newman, Illinois — B.S. Degree in Accounting, University of Illinois, 1925 ... Insurance underwriter from 1925 to 1930 ... With Ralston Purina Co. St. Louis since 1930, Manager of Budget Section ... Charter Member St. Louis Chapter NSBB, serving as Secretary, Program Chairman and 1st Vice President. Has served as speaker and Chairman of AMA Budgeting Seminars.

SAN DIEGO — John B. Morgan — Born 9/19/1917, Washington, D.C. ... B.S. Degree from University of Notre Dame, graduated cum laude 1940 ... Started business career with the Potomac Electric Power Company ... In 1942 with the Internal Revenue Department in Baltimore ... 1946 joined the University of Notre Dame staff, teaching Accounting, received CPA certificate in Indiana in 1949 ... After about 18 months recall to active duty in the USN, he went with the Temco Aircraft Corporation, Dallas Texas in 1953 ... Joined Convair-Astronautics where he now serves as Chief of Off-Site Accounting ... Married — the Morgans have four daughters and one son ... A member of the Dallas Chapter NSBB since 1955, he has been successively Treasurer, Editor of the Newsletter, and Vice President.



SAN FRANCISCO — Emil J. Lage — B.S. Degree Iowa State College 1925 in Electrical Engineering ... Employed by Pacific Gas and Electric Company since July, 1925 — 34 years ... Present position is Manager of the Valuation Department ... Charter Member of San Francisco-Bay Area Chapter of NSBB, served also as Chairman of Membership Committee and Member of the Council and as Treasurer.

TRI-CITIES — Neil F. Denen — Born March 2, 1922 ... B.A. Degree 1948 State University of Iowa, also graduate work at Iowa and Northwestern ... Worked in Freight Traffic Department of the C.B. And Q. Railroad in Chicago ... Joined Iowa Illinois Gas and Electric Company in fall of 1950 — responsible for Company's budget program ... Charter member Tri-Cities Chapter NSBB ... Has served as discussion leader at AMA Budgeting Seminars ... Neil is also a Member of American Economic Association and Operations Research Association of the Tri-Cities.



TWIN CITIES — V.K. Kowalsky — Born in 1921, graduated in 1943 from University of Minnesota School of Business Administration ... With Ernst & Ernst, Minneapolis Office since 1943 ... Member Twin Cities Chapter NSBB since 1955, served as Membership Committee Chairman, Treasurer, Secretary, and Vice President and 1959 National Conference General Chairman.

By: Alwyn M. Hartogensis
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BUDGETING AND CONTROLLING INDIRECT LABOR

The issuance of daily labor control reports on direct labor is a common factory management effort, and the author agrees that this is a mark of intelligent management – but, he believes strongly that the attention of management should be equally directed to the control of indirect labor. This growing segment of cost deserves special attention now and even more so in the future. If you feel that your company may be by-passing this important area, the author presents fresh ammunition for your guns and an operational plan to be used in setting-up your target.

What Do We Mean by the Words "Budget" and "Control"?

You and I know what we mean when we speak of budgets and control, but for the sake of the newcomer among our readers, please let me start with a couple of definitions which will orient our thinking.

A budget is a plan of action for the future. Historically a budget is expressed in financial terms and the word "budget," is customarily used in financial planning. Since sound financial planning must be based on the proposed transactions and activities which have financial effect, the planning process, and, by extension, the term "budget" would include the activities and transactions by means of which the ensuing financial results are accomplished.

The word "control" has several meanings. In the sense of our subject and used in noun form it may be defined as, "Anything affording a standard of comparison or means of verification; a check." The applicable definition of the word in verb form is, "To check or regulate; to keep within limits."

Therefore, budgetary control means the use of carefully considered plans of future action which have been thought out in terms of their aggregate effect on results as standards of comparison for

use in checking and regulating results and to keep results within planned and acceptable limits.

In action, budgetary control means –

1. That management has formulated and expressed its policies and objectives.
2. That the plans of the various elements of the organization have been reviewed and coordinated by top-management for conformance with its policies and objectives.
3. That managements of the various elements of the organization are made accountable for the successful execution of their respective parts of the authorized plan. Their respective parts of the total plan serve for each element of the organization as a standard of comparison for its actual operations.
4. That variances from each item in the plan are analyzed to determine why they occurred and what should be done about them.
5. That appropriate operating action be taken promptly with respect to variances.

Purpose of Budgeting Indirect Labor

Our immediate subject is indirect labor. Indirect labor is a large and growing element of cost. Increasing use of labor-saving equipment in factory, warehouse, and office results in both

relative and absolute increase in the use of indirect labor. For this reason, budgetary control of indirect labor grows in importance.

It is more difficult to measure indirect labor than direct labor. The former includes more varied and non-repetitive tasks. It appears to be subject to a junior version of Parkinson's Law; that is, it tends to grow beyond needs, but is difficult to reduce. In many cases indirect labor forces cannot be replaced as readily as direct labor and consequently they are held through slack periods when direct workers are laid off. Like most fixed and semi-fixed costs, advance planning is the most effective way to control them.

Requirements of an Effective Budgetary Control Program for Indirect Labor

Certain basic requirements may be stated for an effective program of budgetary control for indirect labor. Each of these requirements deserves brief discussion.

Budgets must coincide with the delegation of responsibility through the organization. This means that the organization must be sound. Budgets go down the organizational line as far as the real authority to make decisions affecting costs, and no further. This may or may not extend to first line supervision. Control cannot be effective where budgets are prepared only for upper levels of the organization, if the lower echelons make spending decisions.

Generally, it is desirable to reach first-line supervision, but in some companies, particularly small ones, first-line supervision may not have the power to decide anything.

The organization must be analyzed in action to determine who can really plan and execute.

If supervisors with power to influence costs lack training in management planning, they must be trained. Otherwise, regardless of budgets, they are incapable of carrying their delegated responsibilities.

Planning must be in specific terms. You cannot control to an estimate which is only a guess.

At the level of first-line supervision, or the lowest level for which budgets are prepared, a budget of indirect labor will be more effective for control when expressed in terms of number of employees, by grades, than when expressed in terms of wages, because indirect labor costs are incurred by adding or retaining employees. When scheduled tasks are accomplished with minimum personnel of the lowest appropriate grades, indirect labor costs will be minimum.

The actual wage rates are not controlled by first-line supervisors. They find it difficult to convert dollars into action or to comprehend dollar variances in terms of what they can do about them.

Tell the first-line supervisor that he is over budget by two clerks and an inspector and he knows what to do about it. Tell him that he is \$1,300 over budget and he is still in the dark.

At higher levels, budgets in terms of dollar costs are appropriate. Dollars are the common denominator necessary for the addition of labor costs and other expenses. They are necessary for financial planning and for consideration of the budget in terms of cost and profit.

Plans must be practicable and attainable. It is generally conceded that a too easily attainable budget fosters lax operating practices. An unrealistic, totally unattainable budget, on the other hand, discourages sustained effort. This leaves a stiff, but possibly attainable, budget as the ideal. Yet, it cannot be said that when budgeted performance has been attained, further efforts toward improvement should stop.

Budgets are based on existing methods and practices. When these methods and practices are changed, the budget targets should be changed accordingly. Attainment of budget does not mean that there is no room for further improvement. It simply means that performance under present methods has reached a satisfactory level and that further improvement should be sought through better methods.

BUDGET REPORTS

Budget reporting periods should be of appropriate duration. The budget may be prepared for the fiscal or calendar year, subject to interim revision if necessary, but a much shorter budget period, such as a month, week, or day, is required for purposes of control.

At the lowest organizational levels, a short budget period usually is desirable in order to permit correction when needed before too much loss has accumulated. These periods will be governed by the practicability and economics of issuing control reports. For example, labor efficiency reports comparing actual performance with standards frequently are issued next day on a daily basis. For indirect labor budgets based on manning tables, a weekly actual manpower in comparison with budget report should be adequate.

At higher levels in the organization, budget reports expressed in dollars are usually issued monthly.

Each organization and each industry have characteristics which may determine the preferable budget periods. Such periods also may be influenced by production scheduling practices.

Effective control reports must be in terms of the accounts in which actual data are accumulated. The chart of accounts, therefore, must be designed for cost control.

The accounts should parallel a sound organization structure in order to provide reports of

actual performance of those with responsibility for control. The accounts must be in sufficient detail to provide explanation of variances from budget. They must be in such detail on which sound planning can be based. We aim, as far as possible, at determining what the spending rate should be, rather than what it has been in past experience.

Budget reports must be available promptly at the close of the period to permit timely action. Variances must be analyzed to show what happened, where, and why. There must be follow-up and follow-through on corrective action. These three points will be elaborated on shortly.

BUDGET REVISION

There must be a flexible and practicable procedure for budget revision. The variable budget provides automatically for fluctuations in operating volume which do not change operating methods or fixed costs. Procedure is needed for budget revision to accompany changes in operating methods and processes, including cost reduction projects.

Such a procedure may be designed to eliminate the habit of making extravagant claims of savings on such projects. The supervisor concerned may be required to request downward revision of his budget before credit for project savings is allowed.

Changes in fixed costs due either to addition or improvement of capital assets or to policy changes should be reflected in budget revisions.

In extreme cases of changes in conditions, it may be advisable to prepare a completely new budget during the normal budget period.

NINE REQUIREMENTS

At this time it will be well to summarize the nine requirements of an effective budgetary control program for indirect labor. They are:

1. Budgets must coincide with the delegation of responsibility through the organization.
2. Planning must be in specific terms.
3. Plans must be practicable and attainable.
4. Budget reporting periods must be of appropriate duration.
5. Effective control reports must be in terms of the accounts.
6. Budget reports must be available promptly at the close of the period.
7. Variances must be analyzed to show what happened, where, and why.
8. There must be follow-up and follow-through on corrective action.
9. There must be flexible and practicable procedure for budget revision.

Organization of Budgets

Budgets serve to facilitate the basic management functions of planning, coordinating, and controlling. The budget is the means in which management expresses and coordinates its plans. It may serve as the standard of comparison for purposes of control.

Each member of management who has a responsibility for obtaining results must plan -- that is, he prepares his budget. A Budget Department typically has a staff function; it assists each member of management in preparing his budget, in evaluating the proposed budgets, and in evaluating performance against the budgets. Budgets follow the lines of company and plant organization. Budgets for management levels above first-line supervision are essentially summaries of the budgets of subordinate units, plus the budgets of the higher-echelon staff groups.

The accounts should parallel budget subdivisions, both organizationally and functionally, in enough detail to permit analysis of variances.

Some budgets are expressed in non-monetary units, such as number of employees or hours, quantity of products made or sold, etc. In such cases, provision should be made for reporting actual results in the same terms. This may require a supplement to the regular accounting records.

Methods of Determining Budget Allowance

First, it may be advisable to clarify a possible area of confusion between the terms standard, budget, and forecast.

A **standard** is a planned objective relating to an operation.

A **budget** is a plan relating to the total operations of an organization or of a unit of an organization.

A **forecast** is a statement of what is expected. A variable budget provides the plan for any level of volume; a forecast includes, at least by implication, a prediction of volume. Also I would say that normally a budget does not contain allowance for variance; a forecast may attempt to predict probable or expected variance from budget.

A budget may be the sum of the standards, or their monetary cost equivalents, of the operations of the units included. To this extent, it may represent a total or aggregate standard.

Mr. R. V. Flint of United States Steel Corporation in his excellent article, "Basic Standards -- Management's Tool" published in *Advanced Management*, September 1958, lists the following standard-setting techniques:

1. Time study.
2. Statistical analysis of historical experience.
3. Engineering synthesis.
4. Research and engineering tests.
5. Engineering judgment.

This list is sufficiently complete to serve as a basis for discussing methods of determining budget allowances. Every budget and nearly every standard involves a combination of these techniques.

Time study is most desirable, where applicable, because it affords opportunity to judge (an example of engineering judgment) the appropriate work load. Time study is applicable to continuous and semi-continuous operations; it is not applicable where uncertain delay or stand-by is involved. For the latter reasons, it has not always been used successfully in measuring indirect labor.

Statistical analysis of historical experience serves a good purpose if it means more than blindly taking past performance or trends as standards of future performance. Ratio delay studies are a form of statistical analysis of historical experience. They often are useful in connection with indirect labor budgeting. The adjustment of past experience for expected changes in work load and methods reflects what has been done, rather than what should be done, but in the absence of better measurement, it may be the source of the best budget standard available.

Engineering synthesis, or the application of predetermined data on elements composing an operation, saves time and cost. In some cases, it is practicable where individual time study is not. It may be more accurate. However, when too many short cuts are taken, it can lead to unsatisfactory results. It is easily misused.

Research and engineering tests in the form of developing manning tables are very useful in budgeting indirect labor. These may be combined with time study and with analysis of past experience. Time study of specific operations in the work of the group may disclose the potential improvement over past performance.

Engineering judgment may be the only practicable means of setting a standard for an operation or a budget for an indirect labor group. It will be used also in connection with every other technique mentioned. For example, it is used both to level time studies and to provide personal allowances. Both engineering judgment and good business judgment are essential factors in providing budget allowances.

Control Reports

The purpose of control reports is to direct

attention to those situations which require action by management and to disclose the kind of action required. The content of such reports must be in terms which serve these purposes.

Control reports must be timely. A daily report made available on the morning of the following day permits correction almost as soon as the need occurs. A monthly report available near the end of the following month defers action until trouble has continued for nearly two months. Therefore, particularly in the lower echelons where immediate control is exercised, a short reporting period with prompt rendition of simple reports is desirable.

The control report serves its most useful part in promoting control when it explains variances in adequate terms. The budget is an analytical instrument to facilitate control. It represents an acceptable plan and its use, as reflected in the budget report, should assist in conforming operations to the plan. For this purpose, it should not only disclose and explain variances from the plan, but also trends toward variances.

The principle of management by exception can be overdone. Suppose a ten per cent variance is considered acceptable and in successive months, performance is at 94, 97, 99, 102, 106, and 109 per cent of budget. The ten per cent limit has not yet been exceeded, but obviously something is wrong. The trend is just as useful for control as is the variance limit.

If the budget allowance is a sound manpower allowance or an allowance based on engineered standards, a variance represents a departure from a sound plan. If the plan has been prepared in sufficient detail, the point of departure can be identified and the reason for departure can be determined. This permits the action which constitutes control of costs.

On the other hand, if the budget allowance is a trend of past performance or a pure guess, either the budget itself or the past performance may be at fault. It is difficult to evaluate the situation or to know what action to take.

Variance analysis must not only go into the question of how many indirect workers were used, but also into volume performance. If output of the group is more or less than contemplated by the budget, the allowance generally should be modified. It might represent either poor work scheduling or poor performance. Further investigation is needed.

In some cases where schedules are not being kept, it may be necessary to set budget allowances on the basis of scheduled volume rather than on actual volume. In such cases, efforts should be made to improve schedule adherence. The difference between budget requirements for scheduled

volume and those for actual volume represent a schedule variance and not a performance variance. Responsibility for the variance may be elsewhere in the organization.

Control reports serve their purpose only when they promote corrective action in the situations disclosed. Control is exercised by management, not by budgets or reports.

Budgets, budget reports, and analyses of variances can show where and what kind of action is necessary. Means are required to make certain that appropriate action actually is taken. Reports to superiors, describing the action taken, may be required when the superior reviews the report with his subordinates.

Types of Variances

Since variances are measures of deviation from planned results, the analysis of variance is an attempt to interpret the cause and location of faults in order that corrective action may be taken. Favorable variances also should be studied. They may disclose opportunities for extension of cost improvement to other areas.

Variances fall into three general classes, as follows:

1. Price or wage rate variances
2. Quality variances
3. Quantity variances

Price or wage rate variances represent variances due to difference between the wage rate of employees concerned or the unit price of a commodity or service purchased which was contemplated in the budgeted allowance, and the actual amount paid.

Quality variances represent variances due to the use of a higher grade employee or a better grade of commodity or service than provided for in the budget.

Quantity variances represent variances due to the use of more man-hours or time of employees or more of a commodity or service for a given amount of production or result than provided for in the budget. They are variously referred to as efficiency variances, use variances, yield variances, etc. One form of quantity variances might result from mis-scheduling or from failure of another department to achieve scheduled production. Another might be the result of equipment breakdown.

The several classes of variances are subject to control at different points. With respect to indirect labor, the wage rate for any grade might be established by contract, with responsibility in a wage administration section of the industrial relations department. A quality variance due

to assignment of a higher grade employee than necessary to a particular task might result from unbalanced manning of the department and would be the responsibility of the department head if the determination of grades employed is in his hands. Quantity variances may be due to poor planning, poor training, poor supervision, inadequate tools or work environment, as well as to equipment breakdown, mis-scheduling, or failures of the procurement or other production departments.

Widely fluctuating variances indicate lack of control. In one shop, it proved to be impossible to forecast the amount of unproductive time of production employees. Such time, charged to department expense, was due to such causes as meetings, delays, and machine breakdown. The operator of a machine down for repairs assisted the maintenance man making the repairs. Maintenance was then on a breakdown basis. Control in this case required better scheduling of production and of employee meetings, improved machine loading, and the introduction of a preventive maintenance program.

Variances in the budgets of indirect departments where budgets are tied to some measure of production activity may be due to use of an inapplicable budget base — the work load might not be dependent on production at all — or to "lead" and "lag."

By "lead" and "lag" I mean this: In project type manufacturing such as the manufacture of air frames, as distinct from continuous manufacture, the peak loads in such departments as purchasing, production control, and personnel precedes peak production and again, it peaks at termination of the project or contract. Budgetary allowances based on production hours or wages at times will be inadequate. It is necessary to provide special allowances for start-up and clean-up costs.

It is necessary to avoid mechanical budgeting. You cannot assume that every activity follows any one yardstick, such as productive man-hours. That is a concept useful at times in profit-volume analysis, but it is not altogether true nor is it sufficiently precise for use indiscriminately for budgeting.

People in Budgeting

Management consists of people; not budgets. Budgets are merely a useful tool. If they are to be useful, they must be accepted by the individuals concerned. Failure of a budget system more often is due to misuse and misunderstanding of its function than to technical defects of the system.

The budget analyst is a staff, not a line employee. He is the expert consultant, qualified to

instruct and advise on preparation and to help to interpret. He should not prepare the budget nor attempt to operate. If the line supervisor chooses to interpret results differently than the budget analyst, that is his prerogative.

The budget analyst must use tact. In interpreting a variance report, for example, he might say: "The budget indicates this is the spot you will want to do something about. The trouble seems to be in delay in conforming manpower to production schedules." He should not say, "You don't lay off or hire quickly enough." If the line supervisor needs help in connection with the mechanics of budgeting or the interpretation of results, he is entitled to look for such help from the budget analyst, and he will, if the analyst has earned his confidence as an aide, rather than as a critic.

Some years ago the Controllershship Foundation surveyed the opinions of budgets among factory foremen. I believe that the sample was much too small to be fairly representative, but the horrible examples unearthed contain a lesson.

Opinions voiced by foremen during the survey were very antagonistic to budgetary control. Budgets were accused of being an unfair means to cause a man to trap himself. Comments were, "Budgets make me look bad," "They show me

up," and "They are just implements of high pressure."

Budgets cannot make a poor supervisor of a good one; they can make a good supervisor more effective. If the superior could not recognize an incompetent foremen without a budget, his own qualifications may be questioned. The foreman who said the budget made him look bad was admitting that he never was any good.

If results revealed in the budget report are disappointing, if problems are spotted which the department head alone cannot solve, he is entitled to look to his superior for advice and assistance. He might need the assignment of a staff man, an industrial engineer, to help him.

Management above first-line supervision has broader responsibility for results. Its members should train, instruct, and advise subordinates; they cannot operate in place of subordinates. Demands for performance, with or without budgets, must be reasonable or they will not be met. The manager who manages by kicking his subordinates around does not get as good results as the leader.

The wrong attitude toward budgets can negate their value. Top management and middle management should work to establish the proper atmosphere both by instruction and by example.

NSBB ANNOUNCES THE RON HUTCHINSON AWARD

AWARDS COMMITTEE NAMED

CHARLES MANTEUFFEL, Chairman of the NSBB Awards Committee has announced that the NSBB award for the outstanding article published in the Business Budgeting magazine in the calendar year 1959 will be named the Ron Hutchinson Award.

Mr. Hutchinson, currently an active member of the Kalamazoo Chapter, served as NSBB's first national president. When the Eastern and Mid-Western groups of budget officials merged in 1951 as the National Society for Business Budgeting, Mr. Hutchinson was elected its President. Mr. Manteuffel, in naming the award after our first president, stated that it is only fitting that our first national award be named after our first national president.

NSBB members assisting the award chairman and their duties are:

RON HUTCHINSON AWARD - Charles Manteuffel - Louisville
Walter Bunge - Chicago
Larry Haverkamp - Cincinnati

BEST NEWSLETTER PUBLICATION - Alby Foy - Los Angeles
Ken Decelles - Dallas

BEST CHAPTER BROCHURE - Bill Hall - Boston
Jack Guthrie - Atlanta

The awards will be announced and presented at the annual meeting of members at the National Conference on May 20, 1960 in Cincinnati, Ohio



NEWS ABOUT MEMBERS

CHAPTER OFFICER CHANGES

JOLIET-KANKAKEE CHAPTER - THOMAS G. WRIGHT was elevated to the post of Chapter President following the resignation of ROBERT M. TIMMERMAN. Mr. Timmerman was promoted to Material Manager of the Kankakee plant of A.O. Smith, Inc. and, as such, will have no responsibilities in either the Budgeting or Accounting organization. Tom Wright the new president is Assistant Chief Accountant, Cost Analysis, at American Steel and Wire Co., Joliet, a division of U.S. Steel.

PITTSBURGH CHAPTER - IRWIN E. ZACHER was appointed Secretary-Treasurer of the Pittsburgh Chapter replacing H.A. BEHR who accepted a position out of the city.

NORTHERN NEW JERSEY CHAPTER - ROBERT C. VON SOTHEN of the New Jersey Bell Telephone Company who had been elected First Vice-President took over the reins of the Northern New Jersey Chapter when MORGAN COOPER was forced to resign when he accepted a new position in Chicago.

NIAGARA FRONTIER CHAPTER - LEO J. MONIN moved up to President of the Niagara Frontier Chapter when former president L. C. BERGER resigned when his company Westinghouse Electric Corp promoted him to Director, Management Services for the Apparatus Group in Pittsburgh, Pa. Niagara's new President is with National Gypsum Company.

THE CHICAGO CHAPTER welcomed ROBERT C. WEBB of R.R. Donnelley and Sons Co. who was transferred from the Calumet Chapter. WALTER BUNGE of Chicago addressed the Chicago Chapter of NAA in December.

WILLIAM C. STEIN, New Mexico Chapter, had his thesis on "The Uranium Minerals Industry" placed permanently in the libraries of the American Bankers Association, Rutgers University and the Graduate School of Business Administration, Harvard University. Mr. Stein is Vice President & Comptroller of the First National Bank, Albuquerque, New Mexico, and he was one of 29 bankers in the 1959 graduating class of the Stonier Graduate School of Banking at Rutgers whose theses were thus recognized. A total of 343 theses were submitted by class members in competition for the recognition. We add our CONGRATULATIONS.

REPORT ON FIRST MIDWEST REGIONAL CONFERENCE

On Friday, November 13, 1959, in excess of 90 N.S.B.B. members attended the FIRST MIDWEST REGIONAL CONFERENCE at the St. Clair Hotel, Chicago, Illinois. An analysis of returns from a post-conference evaluation questionnaire mailed out to all attendees reveals that the Conference was an unqualified success and in demand on a regular yearly basis. Visch Millar, National President and Conference Guest Speaker, said in letter to Bob Eklund, Conference General Chairman: "To get close to 100 men together the first time, two-thirds of them from outside the Chicago Chapter was a great achievement. It was a good Conference, and I congratulate you and those who helped you develop it."

The idea for such a conference was first discussed at the National Directors' meeting held in Dallas in 1958. It actually got under way when LEW LANDRETH, then Chicago Chapter President, contacted ROMAN DODYK, Detroit Chapter President, in October, 1958. As a result of this contact, BOB EKLUND, Chicago, was appointed to find out whether or not the Midwest Chapters would respond favorably to the idea. The response was enthusiastic and in February, 1959 a meeting of representatives from interested chapters was held. At this meeting it was decided to go ahead and BOB EKLUND was elected General Chairman.

Ten chapters participated in the Midwest Regional Conference. Chicago acted as Host and Housekeeping chapter while Calumet, Detroit, Fox River Valley, Joliet-Kankakee, Kalamazoo, Milwaukee, Peoria, Skokie Valley, Tri-Cities and Twin Cities provided program material. The program consisted of eight seminars, four of which were presented concurrently during the morning session and four concurrently during the afternoon session.

In the belief that there should be a brief respite from technical subjects during the luncheon, VISCH MILLAR, National President and Guest of Honor, was prevailed upon to give forth with a brief talk on "Present and Future Plans for N.S.B.B."

Unique features of the Conference included an attendance of N.S.B.B. members only, a completely paid attendance - even seminar leaders paid to display their wares, and a hospitality room on the Eve of the Conference. Seminar subject matter was carefully chosen on the basis of an interest poll conducted throughout the area during the early part of 1959.

Before you ask the question here is the answer. At an admission price of only \$7.50 the Conference was a financial success. So when you meet an N.S.B.B. member from the Midwest and he proudly displays a fancy ballpoint pen, appropriately inscribed as a souvenir of the FIRST MIDWEST REGIONAL CONFERENCE, remember to put a check mark on your calendar for next autumn when we are sure the SECOND one will take place.

Pictures of Conference Activities are on opposite page.



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MIDWEST CONFERENCE SCENES



Left to right: Melvin C. Aichholz, National Executive Secretary; R. Visscher Millar, National President; Robert W. Eklund, Conference Chairman; Charles S. Holsteen, Chicago Chapter President.



Seminal Leaders



Chapter Representatives

Standing left to right: Harold Bultema, Calumet City; Charles C. Terwilliger, Kalamazoo; Omar E. Junker, Milwaukee; Robert A. Swenson, Fox River Valley; Robert W. Eklund, Chicago.

Seated left to right: Edward P. Garnier, Joliet Kankakee; Wilfred F. Neumann, Twin Cities; Neil F. Denen, Tri-Cities; John W. Galvin, Peoria; George R. Morton, Fox River Valley.



Conference Attendees

Each and everyone an N.S.B.B. member

R. Visscher Millar - Entertains Planning Committee



On October 29, 1959, National President, R. VISSCHER MILLAR entertained the members of the Planning Committee and guests at his home in Doylestown, Pa. Mrs. Millar served as the gracious hostess on this occasion, and the attendees were most vocal in their praise of the arrangements.

Pictured above are: HAROLD WOEHMYER, General Chairman 10th Annual Conference; MEL AICHHOLZ, National Executive Secretary; CARL WESSMAN, National Director; VISCH MILLAR: MRS. MILLAR: BERNIE SCHALLER, National Treasurer, JIM HUGHES, General Chairman 11th Annual Conference, DON BACON, National Vice President; LARRY HAVERKAMP, National Vice President and CARL BACON, St. Louis Chapter President.

CHARTER PRESENTATION TO NEW MEXICO CHAPTER



Members and Guests
At Chapter Presentation Meeting



Anthony J. Marsh
Chapter President

Arthur D. Moor
National Vice Pres.

ANTHONY J. MARSH, ACF Industries, President of New Mexico Chapter, National Society for Business Budgeting, receives Chapter Charter from ARTHUR D. MOOR, United Air Lines, San Francisco, First Vice President of NSBB. The presentation was made at a recent dinner meeting at the Cole Hotel and gave the New Mexico Chapter national recognition. Included among the guests were FRANK TAYLOR, Public Service Company, Vice President and RICHARD EAGLE, Atomic Energy Commission, Secretary-Treasurer.



JERRY A. HOLLISTER - Supervisor of Accounting, Ampex Audio, Inc. Sunnyvale, Calif.
JUSTIN THOMAS KELLY - Budget Director, Underwood Corp., New York, New York
THOMAS PESCOD, JR. - Budget Director, Commercial Solvents Corp., New York, New York
ROBERT G. NEVINS - Budget Accountant, National Cylinder Gas Corp., Chicago, Illinois
WILLIAM C. ANDERSON - Supervisor of Expense Control, Hughes Aircraft Co., Fullerton, Calif.
KENNETH L. LOWE - Associate Consultant, McKinsey & Co., Inc., Los Angeles, Calif.
SANDFORD IRWIN GADIENT - Management Consultant, McKinsey & Co., Inc., Los Angeles, Calif.
EDWARD A. CARLSON - Genl. Supervisor-Cost & Budgets, Northronics Div. of Northrop Corp, Anaheim, Calif.
ROBERT WILLIAM MECKER - Manager, Price Waterhouse & Co., St. Louis, Missouri
GEORGE WOHLHUETER - Budget Mgr., Pet Milk Co., St. Louis, Mo.
LELAND C. MCGRAW - Supervisor of Financial Forecasts, Standard Oil Co. of Calif., San Francisco, California
IRA N. BRANNON - Planning Manager, Allstate Insurance Co., Menlo Park, Calif.
GARFIELD M. HENNER - Budget Director, Kelsey-Hayes Co., Detroit, Michigan
ROBERT L. KRENTLER - Div. Comptroller, Chrysler Corp., Cycleweld Chem. Prod. Div., Dearborn, Mich.
FRANK D. MITCHELL - Controller, John W. Bolton & Sons, Inc., Lawrence, Mass.
JAMES P. KRESSLER - Supervisor of Budgets & Forecasts, Itek Corp., Waltham, Mass.
GEORGE O. LUSTER - Asst. Treas., Mellon Institute, Pittsburgh, Pa.
ROBERT J. THOMPSON - General Accountant, Pioneer-Central Div., Bendix Aviation Corp., Davenport, Iowa
ERNEST J. ZAMMIT - Asst. Controller, The Mather Spring Co., Toledo, Ohio
N. M. CALVERT - Controller & Asst. Treas., Aro Equipment Corp, Bryan, Ohio
ROBERT A. RIEPE - Adm. Asst. & Controller, Herald Publishing House, Independence, Mo.
WALLACE F. GRUNDEMAN - Asst. Mgr., Ernst & Ernst, Kansas City, Mo.
GEORGE L. LOKEY, JR. - Budget Accountant, Lone Star Gas Co., Dallas, Texas
WILLIAM A. ARIS - Budget Mgr., Union Steel Products Co., Albion, Michigan
JOHN S. FOSTER - Budgeteer, Reed Roller Bit Co., Houston, Texas
JOSEPH B. DOLEN - Asst. Cashier, Cupples Hesse Co., Div. of St. Regis Paper Co., St. Louis, Mo.

CHARLES E. CECIL - Treasurer & Comptroller, The Weather-Proof Co., Litchfield, Ill.
AVIE LAKE, JR. - Cost & Procedure Supervisor, Federal Barge Lines, Inc., St. Louis, Mo.
LEROY J. CLARK - Asst. Controller, S & C Electric Co., Chicago, Ill.
GEORGE J. RICK - Asst. to Controller, International Packers, Ltd., Chicago, Illinois
GORDON L. MacADAM - Budget Analyst, R. R. Donnelley & Sons Co., Chicago, Illinois
TED WROSS - Budget Manager, Detroit Controls Div., American-Standard, Detroit, Michigan
A. WILLIAM REYNOLDS II - Comptroller, Crawford Door Co., Detroit 5, Michigan
KENNETH MORRISON - Supervisor of Budgets, Hygrade Food Products Corp., Detroit, Michigan
ALEXANDER FUSEE - Office & Budget Manager, Port Huron Sulphite & Paper Co., Port Huron, Mich.
FLOYD K. HULL - Cost Analyst-Treasurer's Staff, Delhi-Taylor Oil Co., Dallas, Texas
JERRY A. SCHILLER - Controller's Staff, Bowman Dairy Co., Lombard, Illinois
WILLIAM H. SEARLES - Budget Director, Bunting Brass & Bronze Co., Toledo, Ohio
DANIEL E. RYAN, JR. - Asst. Plant Comptroller, Allied Chemical Corp., Plastics & Coal Chemicals Div., Toledo, Ohio
JOHN A. McCAFFRAY - Budget & Cost Accountant, Statistical Tabulating Co., Chicago, Illinois
BERNARD J. STROZEWSKI - Cost & Budget Supervisor, General Foods Corp., Kankakee, Illinois
RICHARD D. WILLIE - Mgr. Budget & Expense Control Dept., Remington Rand Univac, St. Paul, Minn.
JACK F. THURNER - Mgr. General Accounting, Theo. Hamm Brewing Co., St. Paul, Minn.
JOHN L. JOHNSON - Statistical Supervisor, Theo. Hamm Brewing Co., St. Paul, Minn.
EMMETT C. JOHNSON - Asst. Controller, Theo. Hamm Brewing Co., St. Paul, Minn.
FRANK T. ALFIERI - Budget Director, Remington Rand International, Div. of Sperry Rand Corp., New York City, N. Y.
NORMAN V. BENEDICT - Consultant-CPAs, Peat, Marwick, Mitchell & Co., Dallas, Texas
MARVIN F. BRECHT - Comptroller, Macomber, Inc., Canton, Ohio
C. C. GEHRT - Budget Manager, FWD Corp., Clintonville, Wisc.
MARVIN BARNES - Budget Director, Parker Pen Co., Janesville, Wisc.
HARRY JAMES CONLEY - Research Accountant, Inland Steel Products Co., Milwaukee, Wisc.
G. F. LANG - Cost Control Supervisor, Convair Astronautics, Chula Vista, Calif.
WILLIAM H. DOLAN - Budget Director, General Outdoor Advertising Co., Inc., Chicago, Illinois
HERBERT D. ACKERSON - Div. Controller, Bausch & Lomb Optical Co., Swarthmore, Pa.
JAMES J. CONWAY - Budget Director, The Budd Co., Warminster, Pa.
WILLIAM R. BEAVER - Chief Financial Accountant, Minneapolis-Honeywell Regulator Co., Fort Washington, Pa.
ROBERT EDWARD LEE - Budget Supervisor, Leeds & Northrup Co., Philadelphia, Pa.

Memo: To All NSBB Members
Subject: NSBB Leadership

Already our Society must be thinking about leaders for 1960-61 and 1961-62. By mid-March nominations will close for the three National Officers - President, Vice-President and Secretary-Treasurer - and for the two Directors from each of the six Regions that the Board has established.

The men who attain these Offices and Directorships must be truly "dedicated." They must know the science (or art?) of budgeting thoroughly in all of its practical and theoretical aspects if they are to command the needed respect of our Membership and of the business world in general. They must believe in the principles of NSBB and be prepared to work constructively. They must have a certain amount of administrative ability and - most important - be able to apply the long-range view to current problems.

The National Nominating Committee is composed of four Past Presidents of NSBB, able men who have been "through the mill" and can speak authoritatively about the Offices for which they will be lining up nominees. But they cannot know all of our 1,200 Members, no matter how wide their acquaintance. They need the help of every NSBB man and woman to bring to their attention the names of Members who can do these three jobs for the Society.

The Regional Nominating Committees, which will be selecting candidates to represent their various Regions, are in a little different position. Generally the Chapter Presidents who are serving on these Committees know their own people well but not the Members-at-Large in their respective Regions.

Since the job of a Regional Director will be to represent the Members in his Region on the Board of Directors it is fitting that he be selected by those very Members. He must know the local problems and people and must work with them for the constructive growth of his Region. He will have to do some organizing (of Regional Conference, for instance) but the administrative aspect of his job will be less important than some other areas. More important is that when questions of long-range significance face the Board of Directors, it will be his job to assure that the interests of the Members in his area are properly served.

So the Regional Nominating Committees have tough jobs, too. Like the National Committee, they need your help. Please give it by suggesting names to your Chapter President.

These National and Regional elections are too important to be "cut and dried." The wrong man in a key spot could do lasting damage to the Society. Therefore we are eager that there be several nominees for each Office and Directorship. So that the task of lining up that many candidates is not confined to the Nominating Committees, the "petition" mechanism is provided in the By-Laws. The hope is that Members will use it generously, for all it takes is ten to agree on a nominee and his consent to run. So when a Member suggests another one to a Nominating Committee and the Committee indicates they have enough names already, the petition can be put together rapidly and the man's name will come up for vote.

The details of the mechanics of nomination and election have been summarized by Secretary Les Hawkins elsewhere in this issue of BUSINESS BUDGETING, to be available for reference in the next few weeks. They should be reviewed by every Member so he understands the procedures laid down in the new By-Laws.

NSBB has grown beyond the wildest plans of its founders primarily because it fills a need for a forum where our common interests can be discussed freely to our mutual benefit. Let us assure that our growth continues in the next decade on the same sound basis we enjoyed in our first decade. To do this every Member is urged to take an active interest in the coming Elections.

R. Visscher Millar
National President



NATIONAL SOCIETY FOR BUSINESS BUDGETING ELECTION NOTICE

The election of Officers and Directors under the Society's new Regional organization will be on this schedule:

All nominations close March 19.

Ballots mailed to Members April 20.

Results announced at the Annual Meeting May 20. *on May 1 and at the Annual Meeting at May 26*

Nominating National Officers

The President, Vice-President and Secretary-Treasurer for 1960-61 will be nominated by either the National Nominating Committee or by petition. The Committee appointed by the Board of Directors consists of

Mr. Harold C. Mason, Chairman

S. C. Johnson & Son, Inc.
1525 Howe Street
Racine, Wisconsin

Mr. Charles H. Eckelkamp

Combustion Engineering, Inc.
200 Madison Avenue
New York 16, N.Y.

Mr. Walter R. Bunge

Inland Steel Company
30 W. Monroe Street
Chicago 3, Illinois

Mr. William D. McGuire

Kimberly-Clark Corp.
Lake Street
Neenah, Wisconsin

Any ten Members can nominate a Member by signing an appropriate petition and sending it to reach the Administrative Secretary,

Mr. Melvin C. Aichholz

NSBB
P. O. Box 1
Covington, Kentucky

by March 19. 17

The petition must be accompanied by indication in writing that the nominee is willing and able to serve if he is elected.

Nominating Regional Directors

Your Board has designated six Regions into which the Chapters have been grouped:

Region I

Boston
Bridgeport
Hartford
New York
Niagara Frontier
Northern New Jersey
Philadelphia
Toledo

Region II

Canton
Cincinnati
Cleveland
Dayton
Detroit
Indianapolis
Kalamazoo
Pittsburgh
Toledo

Region III

Kansas City
Milwaukee
St. Louis
Tri-Cities
Twin Cities

Region IV

Calumet Region
Chicago
Fox River Valley
Joliet-Kankakee
Peoria
Skokie Valley

Region V

Atlanta
Chattanooga
Dallas
Houston
Louisville
Nashville
New Orleans
Richmond
Shreveport
Winston-Salem

Region VI

Los Angeles
New Mexico
Rocky Mountain
San Diego
San Francisco

Members-at-Large are included in these Regions according to their mailing addresses in the NSBB files. (Members-At-Large can determine their region by reference to the Regional Map on Previous Page.)

Each Region will elect

☒ A Director for one year, 1960-61, and

☒ A Director for two years, 1960-1962.

Candidates for each Region will be nominated by either the Regional Nominating Committee or by petition. The Presidents of the Chapters in a Region constitute that Region's Nominating Committee, so if you have suggestions for them, see your Chapter President. Two qualifications for the Regional Directorships should be noted:

Each nominee must be from the Region he will represent if elected (either a Chapter Member or a Member-at-Large); and Both Directors of a Region may not be from the same Chapter. Note also that service on a Regional Nominating Committee by no means precludes a Chapter President this year from being a Regional Director next year.

Again, any ten Members in a Region may nominate their Regional Directors by petition. The procedure is the same as for National Officers: Petition must reach Mr. Aichholz by March 19, and must be accompanied by the nominee's consent in writing.

ELECTIONS

The Administrative Secretary will send to each Member

A ballot for election of three National Officers,

A ballot for election of two Regional Directors, and

Personal data about the nominees

Members will have 20 days to get their ballots back to the Election Committee and the results will be officially announced at the Annual Meeting in Cincinnati on the second day of the Conference — May 20.

on May 1 and at the Annual Meeting in Dallas at May 26

Leslie G. Hawkins
Secretary - Treasurer

KNOW YOUR OFFICERS



Lawrence P. Haverkamp
National Vice President

LARRY is a transplanted Ohioan, with original roots still in Kentucky. He was born in Bellevue, Kentucky just across the Ohio River from Cincinnati. He migrated to Ohio permanently after returning from Air Force service in 1945.

Xavier University evening division contributed most to his college education and while attending here he worked as Office Manager for the Cincinnati Branch of Snap-on Tools Corp. In 1945 he joined Trailmobile, and in the past fifteen years has held positions in a number of departments. Among them were: Supervisor of Payroll, Plant controller, General Plant Controller and his current position of Budget Director.

When the Cincinnati Chapter was organized in 1953, Larry was one of the Charter members. Active in chapter affairs, he served as Secretary, Vice President and President. Currently, he is serving as Program Chairman for the 10th Annual National Conference.

Nationally, his contribution started in 1955 when he served as Associate Editor, under Glen Blair, of the National Publication of NSBB, Business Budgeting. With Glen's retirement in 1957, he was appointed

Editor. While admitting it's a task, he also admits that he enjoys the work and hopes that his contribution is worthwhile.

He has attended many Director's Meeting in the past years as Editor of Business Budgeting and currently is a National Vice President and a member of the Planning Committee.

Larry is married to the most charming woman in NSBB (he says) and he and RITA have been blessed with seven children - 3 boys and 4 girls.

WINONA, MINNESOTA, a small town in the southern part of the state, made a big contribution to NSBB back "not-so-long-ago."

They didn't know it then, nor did we, but events since have supported this view.

BERNIE SCHALLER was born and matured in Winona, Minnesota. He attended St. Mary's College in Winona after returning from service in the 8th Air Force.

Bernie's first position was with Minneapolis-Moline Co. in 1948 as a Cost Accountant and later as Budget Analyst. In 1957 he joined Remington-Rand Univac as Budget Manager, and after one year, he then accepted a position with Theo. Hamm Brewing Co. as Manager of Cost and Budgets.

The year 1952 saw his first association with NSBB and he has been actively engaged in chapter and national NSBB affairs ever since. The offices he has held include:

TWIN CITIES CHAPTER - Treasurer 1953-54; Secretary 1954-55; Vice President 1955-56; President 1956-57. NATIONAL - Director 1957-58; Treasurer 1959-60. On the National level, he is also currently a member of the Planning Committee and Chairman of the Budget and Finance Committee. He served as Co-Chairman of the Arrangements Committee of the highly successful 9th Annual Conference.

Bernie is married - Wife's name is Lois and they have two sons, ages 8 and 9.



Bernard W. Schaller
National Treasurer

10th ANNUAL NSBB NATIONAL CONFERENCE

**CINCINNATI, OHIO
MAY 19, 20, 1960**



HAROLD J. WOEHRYER
General Conference Chairman



HOSPITALITY

SUPERB DINING

MAJOR LEAGUE
BASEBALL



TECHNICAL
PROGRAM



**CONFERENCE HEADQUARTERS
THE NETHERLAND HILTON HOTEL**



Reds vs Dodgers
May 8-19 Nite



Typical Cincinnati
May Temperatures
Mid 50's to Mid 70's



*Cincinnati
Welcomes You!*